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SUBJECT: Mexico Economic Weekly - September 4

¶1. (U) The Mexico Economic Weekly supplements reporting from Mission Mexico Consulates and the Embassy Mexico Economic Section to provide a sense of ongoing trends. Please contact Adam Shub (shubam@state.gov) or Sigrid Emrich (emrichs@state.gov) for questions or comments about this report.

¶2. (U) Table of Contents:

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ECONOMY AND FINANCE:

¶3. (U) MEXICO'S ECONOMIC OUTLOOK IMPROVES SLIGHTLY: Many analysts are forecasting slightly more optimistic trends for the Mexican economy in 2010 in light of the latest global and domestic economic indicators. This more optimistic outlook is based on the U.S. recovery, along with better-than-expected data for key domestic indicators, such as consumer confidence, retail sales, purchaser manufacturing indexes. The price of oil, Mexico's largest source of foreign revenue, has strengthened. The central bank's August survey of economists indicates a GDP growth forecast of 2.9 percent (from 2.5). HSBC has also revised its growth estimate for 2010 to 3.6 percent (from 2.9). Banamex projects 3.6% growth. Despite the encouraging news, economists remain concerned about Mexico's high dependence on oil revenues, lower than anticipated oil production, biased tax structure, overblown bureaucracy, and subsidy expenditures. (Mexico City)

¶4. (SBU) CALDERON ADMINISTRATION FACES 2010 BUDGET CHALLENGE: The Calderon administration faces a formidable challenge in preparing the 2010 budget which will be presented to Congress September 8. Hacienda anticipates a spending gap of 2.7 percent of Mexico's GDP which will be financed through a combination of debt, expenditure cuts, and a moderate increase in the deficit. The GOM is also exploring other non-oil revenue generating options (e.g. higher taxes, reducing energy subsidies, and simplification of the tax system). In recent weeks some economists and politicians have pointed to incurring more debt as a preferred means to finance the gap. This would likely be done through the domestic market.

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Although increasing debt may put pressure on interest rates and inflation, most economists believe that Mexico has the capacity to incur slightly more debt and inflation. (Mexico City)

¶5. (U) BUSINESS CLOSURES RISE IN CHIHUAHUA AMIDST RISING CRIME AND ECONOMIC SLOWDOWN: From January to August 2009, 1,061 formal sector businesses closed in Chihuahua (33,174 total businesses to 32,113), according to Mexico's Business Registration Database (SIEM). Over 90 percent of business closures involved small and medium enterprises, which have been negatively impacted by poor public security conditions, particularly in Ciudad Juarez, and the economic slowdown. Local analysts suggest that many former business owners and employees now work in the informal or illicit economies. Nationwide, the number of new registered businesses grew by 2 percent during this period (691,835 total businesses to 707,580). (Ciudad Juarez)

HEALTH:

¶6. (U) CONFIRMED H1N1 CASES ON THE RISE IN MEXICO: Mexico's Secretariat of Health is reporting an increase in the number of confirmed H1N1 influenza cases. On September 1, the Secretariat reported 997 confirmed cases and 14 deaths during the previous week. Mexico reported an average of 179 confirmed cases per day between August 20 and September 1, an increase from an average of 143 cases per day in the preceding 16 days. Local newspapers speculate that the rise in influenza cases coincides with the beginning of the school year. These latest statistics bring Mexico's overall toll to 21, 857 cases and 193 deaths, figures which are widely believed to be underestimated. While 90% of severe and fatal cases of seasonal flu occur in people over the age of 65, H1N1 influenza deaths tend to occur in younger populations. In Mexico, 72% of fatalities occurred in patients between 20 and 54 years old. In response to the long-anticipated return of the flu this fall, the Mexican government is continuing its successful public information campaign urging the public to maintain public health measures such as frequent hand-washing and sneezing etiquette. Since the initial outbreak this spring, Mexican officials have stockpiled Tamiflu, educated health care workers and streamlined a data collection

system to catch trends and analyze cases across the country.
(Mexico City)

TRADE AND INVESTMENT:

¶17. (U) DESPITE DIFFICULT SECURITY CONDITIONS, FDI TO CHIHUAHUA INCREASES IN SECOND QUARTER: Foreign direct investment (FDI) statistics released by Mexico's Secretary of Economy reveal FDI to Chihuahua increased from \$US 149 million in the first quarter of 2009 to \$US 163 million in the second quarter, ranking the state as the fourth largest recipient of foreign investment nationwide for the quarter, behind Mexico City, Coahuila, and Mexico State. U.S. companies accounted for more than 95 percent of FDI inflows to Chihuahua, of which 100 percent went to the maquila sector. Despite the positive quarter-over-quarter data, year-over-year FDI to the state is down almost \$US 240 million (second quarter of 2008 - \$US 402.4 million; second quarter 2009 - \$US 163 million). The rise in FDI demonstrates that while security conditions in Ciudad Juarez may create a drag on foreign investment, US manufacturing and consumption trends continue to be the primary determinant of external investment to the city. (Ciudad Juarez)

¶18. (U) ONE OF INDIA'S LARGEST IT COMPANIES EXPANDING IN MEXICO: In a visit to their Guadalajara headquarters, Tata Consultancy Services told Post that they are looking to aggressively expand Mexico-wide operations by 1,000 employees over the next year. The software and services firm, established in Mexico in 2003 with offices in Guadalajara, Mexico City, Monterrey and Quertaro, is using the country as a base to support Latin American and US customers. With a reported 96% of its current 1,500 in-country staff being Mexican, their "near-shoring" business model of bringing few executives to train and manage young local hires could bring greater Indian FDI to Guadalajara. The firm sees a strategic advantage in servicing clients within the same time zone that are short a flight away for immediate on-site assistance. Indian IT firms view Tata as a market leader and demonstrated success through their expansion might encourage trailing firms to bring operations to Mexico's Silicon Valley. (Guadalajara)

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¶19. (U) IMPROVING TIJUANA'S IMAGE TOP PRIORITY FOR SAN DIEGO/TIJUANA BUSINESS COMMUNITY: On September 2, the San Diego Chamber of Commerce hosted a welcome roundtable breakfast with the cross-border business community for recently arrived Tijuana Consul General Steve Kashkett, and on September 3, Post hosted a breakfast for Tijuana and Tecate business persons. In both events, the business community expressed concern about the bad image of Tijuana and the border region created by both the U.S. and Mexican press, which, in their views, does not reflect reality. Businessmen noted that both San Diego and Tijuana are the farthest region from their respective capitals and, as such, have difficulty lobbying for their needs with the federal governments. Border wait times was another issue of serious concern for the business community. (Tijuana)

ENERGY AND ENVIRONMENT:

¶10. (U) ETHANOL PLANT TO GO ONLINE IN VALLE HERMOSO IN 2010: Bioenergéticos Mexicanos will open an ethanol plant in Valle Hermoso during the second half of 2010. The plant will produce ethanol from sorghum. Benito Lopez Martinez, technical advisor for Bioenergéticos Mexicanos, confirmed that the company will participate in the September 2010 PEMEX tender for ethanol contracts. Demand for ethanol is expected to rise in 2010 and 2011 when by law gas must be oxygenated with ethanol in three Mexican cities - Guadalajara in 2010, followed by Monterrey and Mexico City in 2011. The initial plant investment of approximately ninety million dollars has been funded by local farmers (40%) and private U.S. and Mexican investors (60%). Local farmers are committed to providing sorghum to the plant year round at an estimated consumption of 400,000 tons per year. Additionally, there are two ethanol plants in Sinaloa, currently offline because they use corn

to produce ethanol and there are no domestic supplies of corn available. Mexican law prohibits using domestic corn to produce ethanol unless there is a national surplus. (Matamoros)

¶11. (SBU) TAMAULIPAS HAS HIGHEST NUMBER OF REPORTED HAZMAT (HAZARDOUS MATERIALS) INCIDENTS OF ALL MEXICAN BORDER STATES, 2000-2008: During the recent U.S. and Mexico Inland Joint Response Team Meeting, PROFEPA (Mexico's Environmental Attorney's Office) representatives reported the state of Tamaulipas had the highest number of reported HAZMAT incidents of all Mexican border states between 2000-2008. Three hundred thirty-six (336) incidents were reported in Tamaulipas during this 8 year period, 49% of all incidents reported in the border states. Gas and diesel were the most frequent substances involved in the incidents, the majority of them fuel spills. Border states accounted for 31.8% of all reported HAZMAT incidents in Mexico during the 8 year period. (Matamoros)

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